



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Bisbee Unified School District No. 2

Year Ended June 30, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 2, 2005

Governing Board
Bisbee Unified School District No. 2
100 Old Douglas Road
Bisbee, AZ 85603-1038

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra Davenport
Auditor General

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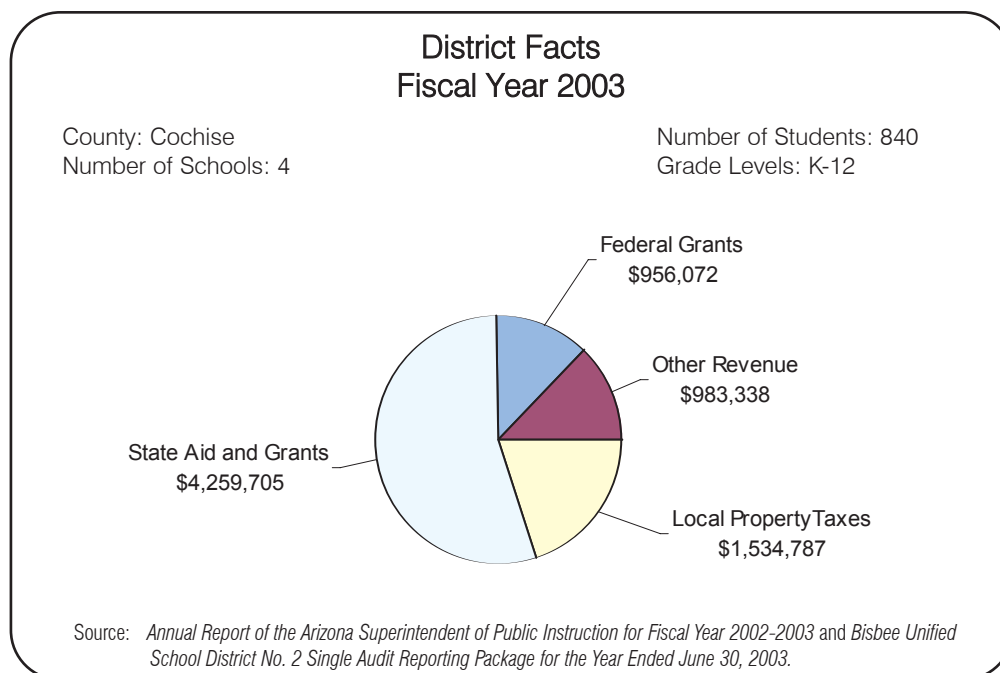
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INTRODUCTION

Bisbee Unified School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$7.7 million it received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not maintain required documentation, such as determining in writing that

The District may not have received the best value for the public monies it spent, as it made an emergency procurement when an emergency did not exist and three sole source procurements without documenting that only one source existed.

requesting proposals was more beneficial to the District than obtaining competitive sealed bids, documenting that a price quoted by the only vendor responding to an invitation for bid was reasonable, and stamping bid and proposal envelopes with the date and time received. In addition, the

District made an emergency purchase without documenting that the price was reasonable in one case and when an emergency, as defined by the School District Procurement Rules, did not exist in another case. Also, for three sole source purchases, the Governing Board did not determine in writing that only one vendor existed. Further, the District did not always obtain written price quotations for purchases that required them, and did not always prepare purchase orders before goods or services were ordered.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Retain all purchase documentation including time- and date-stamped bid and proposal envelopes.
- Obtain written governing board determination that using competitive sealed bidding is either not practicable or not advantageous to the District before making purchases using competitive sealed proposals.
- Determine in writing, before awarding a contract, that the price submitted from the only vendor responding to an invitation for bid is fair and reasonable and that either other prospective bidders had reasonable opportunity to respond or there was not enough time to obtain more bids.
- Limit emergency purchases to materials, services, or construction necessary to satisfy the emergency. An emergency condition, as defined by School District

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

Procurement Rules, seriously threatens the District's functioning, the preservation or protection of property, or the public health, welfare, or safety.

- Obtain a written statement for each emergency purchase, documenting the basis for the emergency, the selection of the particular contractor, and why the price paid was reasonable.
- Have the Governing Board determine in writing that there is only one vendor from which to purchase the materials, services, or construction. Sole source procurement should be avoided, except when no reasonable alternative source exists.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Prepare and approve purchase orders before ordering goods and services.

The District should strengthen controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. Specifically, the auditors noted that at one school there was not student approval of Student Activities Fund expenditures, as there were no formal student clubs or student council. Further, monies processed through the account inappropriately included field trip fees and parent-organized fund-raisers, and in one instance, students inappropriately sold raffle tickets on school grounds to raise money. In addition, the District did not reconcile sales to cash collected on cash collection reports.

At one school, the District did not obtain student approval before making student activities disbursements.

Recommendations

To strengthen controls over student activities monies, the District should require that disbursements of monies raised through the efforts of the student body as a whole be approved by a student activities council. Disbursement of monies raised through the efforts of a specific student club must be approved by that club. Each student club should have a sponsor and prepare minutes of its meetings and approval of any disbursements should be included in the minutes. The District should limit student

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

activities to valid student clubs, organizations, school plays, or other student entertainment, for which monies are raised by students' efforts.

Only clubs that are not school controlled, such as off-campus clubs, clubs sponsored by civic groups, or parent-teacher organizations, and fit within the tax-exempt categories defined by Arizona Revised Statutes §43-1201 may hold raffles. Students may not sell raffle tickets on school grounds. The District should also prepare cash collection reports that reconcile sales to actual cash collections.

The District should improve controls over its cash

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash.

The District had over \$260,000 in bank deposits that was uninsured and uncollateralized at June 30, 2003.

However, the District did not have adequate controls over its cash. For example, the District did not adequately separate cash-handling and recordkeeping responsibilities since the same employee signed checks, recorded receipts and disbursements, made deposits, and reconciled the bank accounts. In addition, the District had \$264,437 in bank deposits that was uninsured and uncollateralized at fiscal year end.

Recommendations

To help strengthen controls over its cash, the District should separate cash-handling and recordkeeping responsibilities between employees and have a third employee reconcile the bank accounts. If one employee is responsible for more than a single task, a district manager or supervisor should review and approve the monthly bank reconciliations. In addition, the District should obtain a collateral agreement from its bank for all amounts on deposit in excess of the Federal Depository Insurance Corporation threshold.

The District should improve procedures for processing payroll

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing. Specifically, prepayroll registers were not reviewed for reasonableness or exceptions before the final payroll registers were prepared. In addition, the District did not include tuition reimbursements in its

employees' taxable income. Also, unclaimed Wage and Tax Statements (W-2 forms) were returned to the payroll clerk rather than to an employee outside the payroll department.

Recommendations

To help strengthen controls over payroll expenditures, the District should implement the following procedures:

- Have an accounting supervisor review prepayroll registers for reasonableness and changes before the final payroll registers are prepared. All exceptions should be reviewed and approved.
- Include tuition reimbursements, which are considered supplemental wages, in employees' taxable income.
- Make an employee outside the payroll department responsible for receiving and investigating unclaimed W-2 forms.